

OUSD AT&L/ Property and Equipment Policy/ARA Property and Equipment Policy

Property Accountability & Management

“Army Day”
June 14th, 2007

Management
Controls

Assertions
Acc.

DoDI

ASTM Standards

CFO Act

GFP

OMB Circulars

Our goal for today is to bring all the pieces together

FAR

Audit
Accountability
Improvement Plan

Proprietary
for Military

Valuation

The DoD Property Accountability Mission

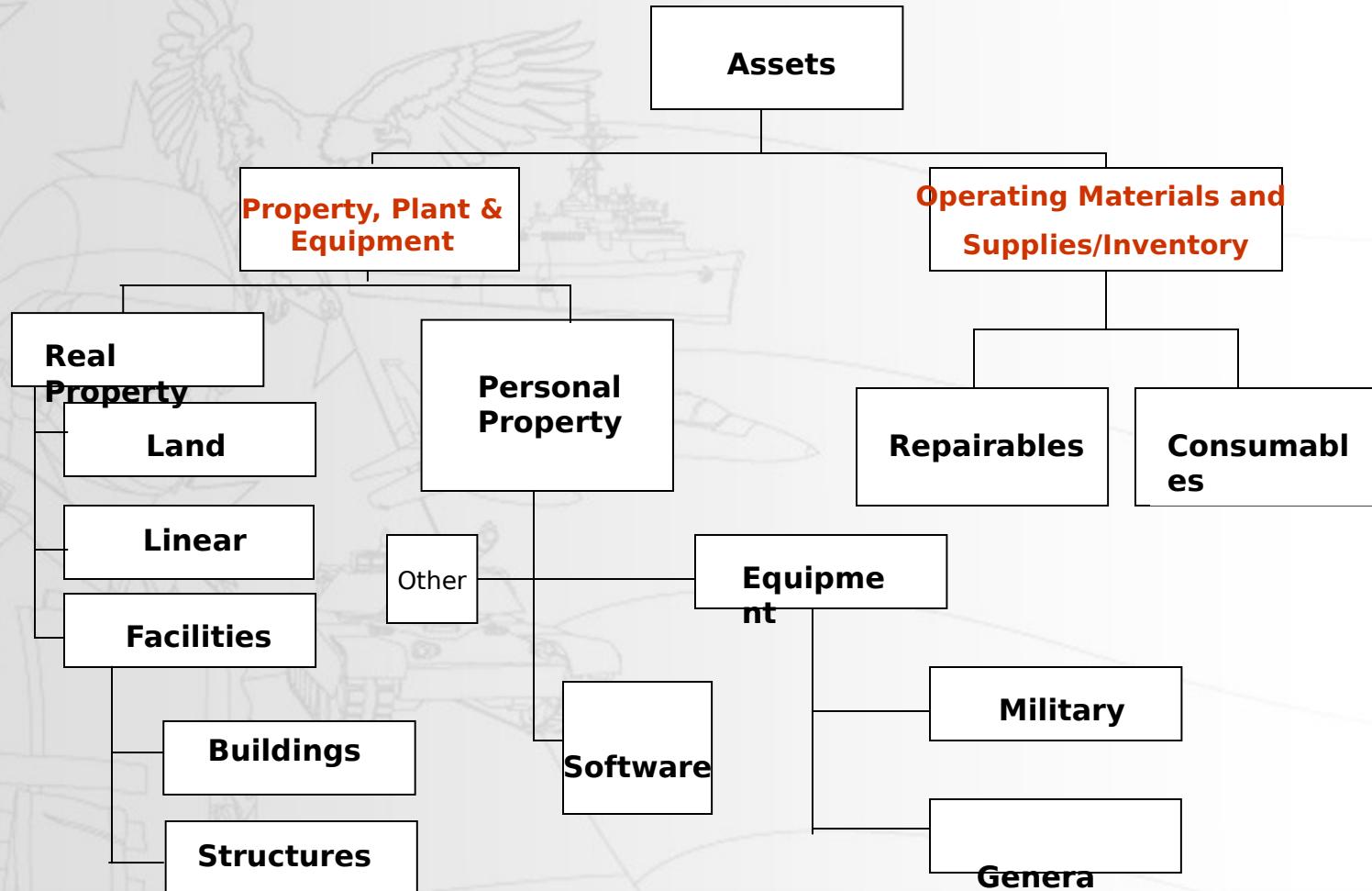
Accountability

The DoD property accountability mission is a large and complex endeavor involving assets valued in the trillions of dollars. It is essential that these assets are accounted for and managed wisely to meet ever-changing operational requirements—and be consistent with Federal Accounting Standards.

Don't confuse Accounting with Accountability.

Accounting focuses on recording events and transactions that involve the property. Accountability has a larger focus; the people, processes, systems, records, and methodologies necessary for effective management of personal property throughout its entire life cycle.

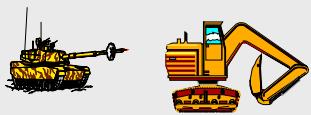
Financial Perspective



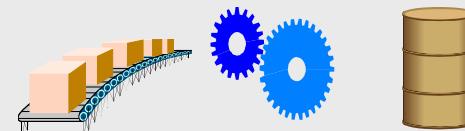
Another Way of looking At It



Networks & Information



Equipment and Other Accountable Property



Inventory/Materiel

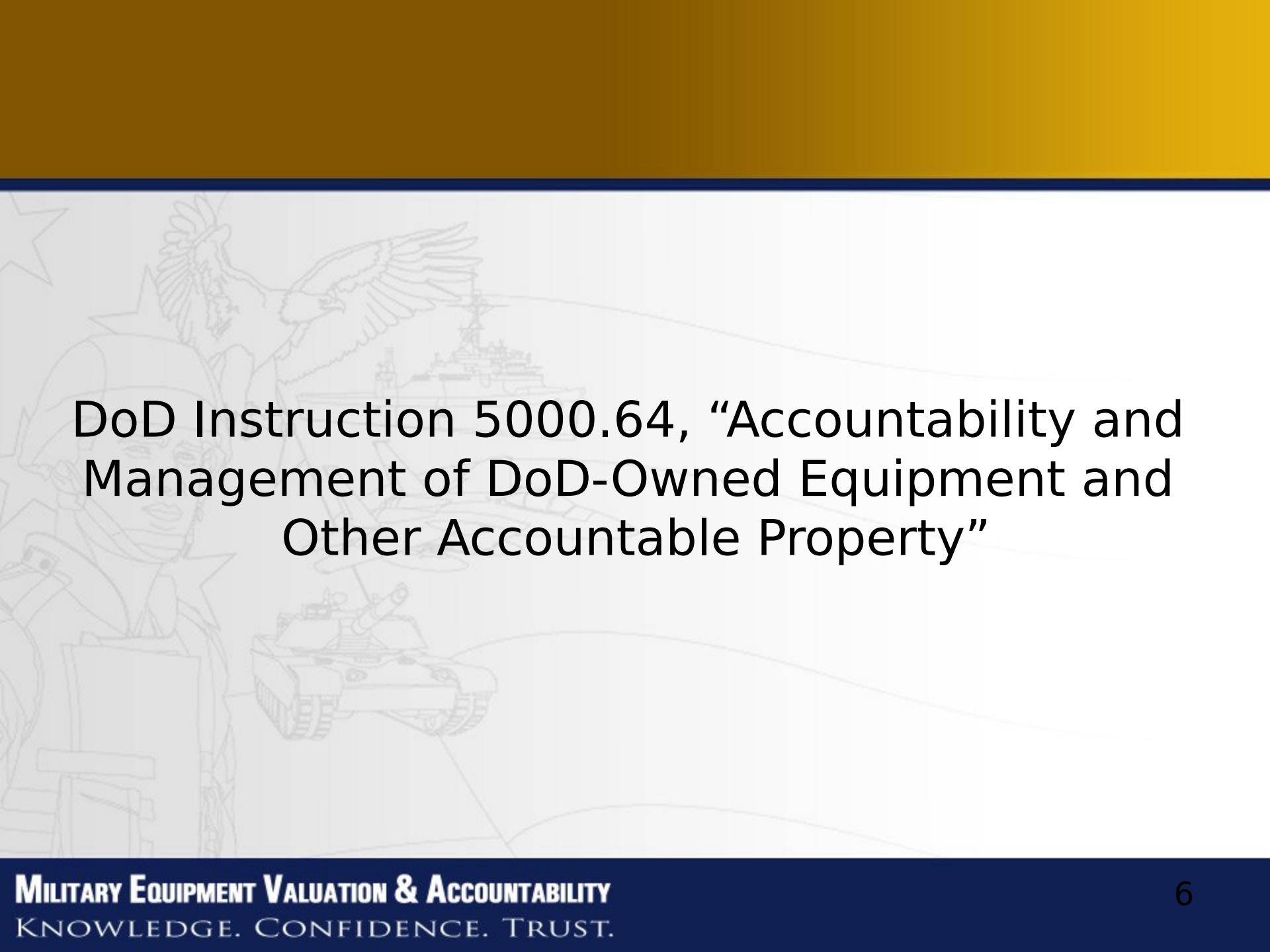


Real Property

Acquisition Resources & Analysis

Logistics & Materiel Readiness

Installations and Environment



DoD Instruction 5000.64, “Accountability and Management of DoD-Owned Equipment and Other Accountable Property”

DoDI 5000.64

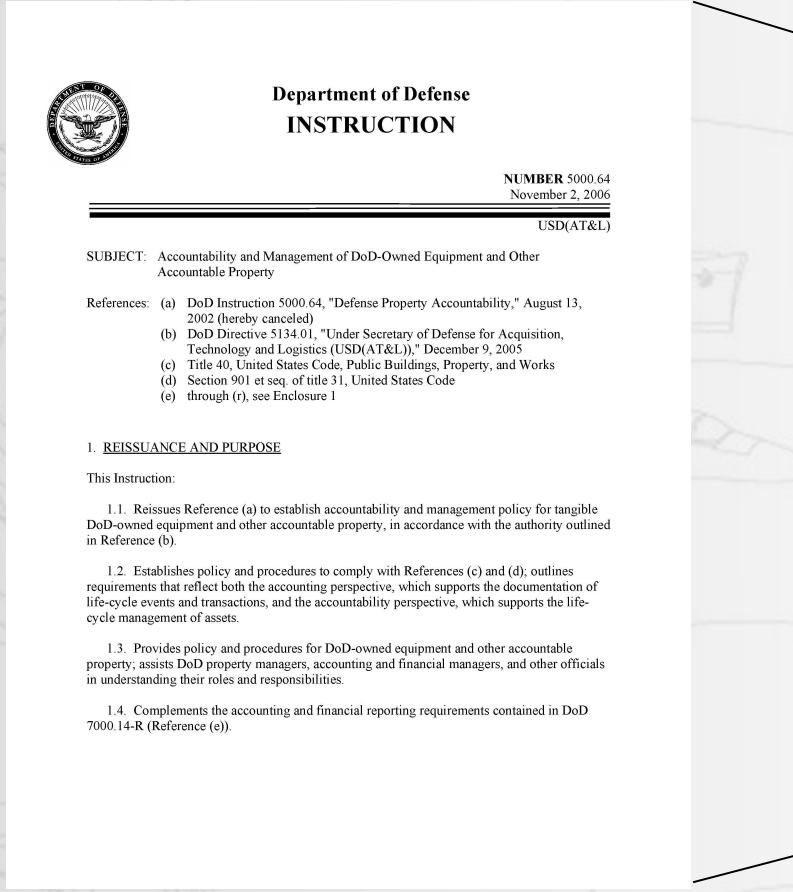
- Applies to only Equipment and Other Accountable Property.
- It does not cover:
 - Real Property (DoDI 4165.14, *“Real Property Inventory and Forecasting”*)
 - Software (falls under ASD Networks and Information/Chief Information Officer policy)
 - Material/Inventory (DoD 4140.1-R, *“Supply Chain Materiel Management Regulation”* and DoD 4000.25-2-M, *“Military Standard Transaction Reporting and Accounting Procedures”*)

DoDI 5000.64

What is meant by Equipment and Other Accountable Property?

- **Equipment** is personal property that is functionally complete for its intended purpose, durable, and nonexpendable.
- Equipment generally has an expected service life of 2 years or more; is not intended for sale; does not ordinarily lose its identity or become a component part of another item when put into use; and has been acquired or constructed with the intention of being used.
- Depending on how its used, equipment can be either “military” or “general” equipment. Typically, equipment that is used on the battlefield is considered military equipment.

Keystone Document



Systems of Record
Internal Controls
Human Capital
Recognition
Physical Inventories
Full Cost
Records
Performance
Measures
GFE
CAP
Property Council
Standards

Why reissue the DoDI 5000.64?

**To conform more closely to (AT)
memorandum of Sept. 23, 2005**

“...a greater emphasis on the management of personal property will provide the foundation necessary for obtaining and sustaining an unqualified “clean” audit opinion, as well as: increasing operational efficiency and mission performance; enabling sound investment decision-making and cost control due to greater financial and physical accountability; mitigating/eliminating fraud, waste, and abuse; and resolving material weaknesses”



THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

SEP 23 2005

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF
DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF
DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Policy Forecast for Property Management and Accountability

Secretary Rumsfeld has made business transformation a priority, and as such, the Department remains committed to the business and process reforms necessary to sustain it as a world-class operation. One area where I believe we can better optimize our resources and improve the economy and efficiency of our business operations is in how we account for and manage our military equipment and our administrative property, i.e., *personal property*, as defined in DoD Instruction 5000.64, Defense Property Accountability. Clearly, the Department is making great strides in improving the management of its real property holdings. Similar rigor, however, is necessary for the billions of dollars of personal property with which we are also entrusted. Indeed, a greater emphasis on the *management* of personal property will provide the foundation necessary for obtaining and sustaining an unqualified “clean” audit opinion, as well as:

- increasing operational efficiency and mission performance;
- enabling sound investment decision-making and cost control due to greater financial and physical accountability;
- mitigating/eliminating fraud, waste, and abuse; and
- resolving material weaknesses.

A fully integrated DoD-wide reform effort specific to personal property management and accountability can only be accomplished if we comprehensively examine our *policies, processes, systems, and people*. To that purpose, and as directed in my predecessor’s memorandum of May 12, 2005, “Subject: Policy Update for Item



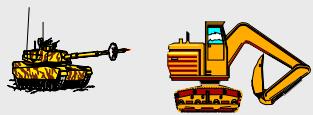
Why the Name Change?

- **FROM: “*Defense Property Accountability*”**
- **TO: “*Accountability and Management of DoD-Owned Equipment and Other Accountable Property*”**



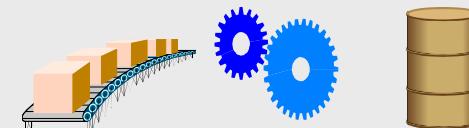
Why the Name Change? (cont.)

To better align policy with our mission area



Equipment and Other Accountable Property

Acquisition Resources & Analysis



Inventory/Material

Logistics & Material Readiness



Real Property

Installations and Environment



Networks & Information

Major Changes

- **The new Instruction excludes:**
 - Real Property (DoDI 4165.14, *“Real Property Inventory and Forecasting”*)
 - Software (falls under ASD Networks and Information/Chief Information Officer policy)
 - Material/Inventory (DoD 4140.1-R, *“Supply Chain Materiel Management Regulation”* and DoD 4000.25-2-M, *“Military Standard Transaction Reporting and Accounting Procedures”* [nothing new here])

Major Changes (cont.)

- **Deletes JFMIP Property Management Systems Requirements**
- **Incorporates Property Management Consensus Standards**
- **Requires formation of a Property Council**
- **Clarifies GFP policy**
- **Adds IUID as a required data element**
- **Provides performance-based physical inventory practices**
- **Includes new requirements for self-assessments; maturity levels and performance measures**
- **Contains a number of new, revised, and important definitions**

DoD Component Requirements

- **Be accountable for and manage all property acquired, leased, or otherwise obtained throughout an asset's lifecycle**
- **Establish accountable property systems of record; ensure their appropriate integration with core financial and other systems**
- **Establish implementing regulations and procedures, including the assessment and reporting of its overall property management maturity level**

DoD Component Requirements

- **Develop and maintain effective and meaningful performance measures**
- **Perform periodic internal reviews and audits necessary to assess property accountability and management system effectiveness**
- **That all persons entrusted with Government property are made aware of their and are properly trained to their level of functional responsibility.**

Policy

Paragraph 6.1

Accountability: “*...established by formal receipt and acceptance in an accountable property system of record*”

New Definition: **Accountable Property System of Record:** “*The system used to control and manage accountable property records; a subset of existing organizational processes related to the lifecycle management of property; the system that is integrated with the core financial system.*”

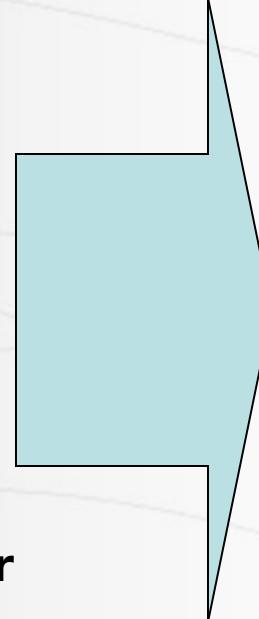
Recognition of Property, Plant and Equipment

ACCOUNTING (FASAB STD 6)

- **“Recognition can occur when *title* passes to the acquiring activity or when the PP&E is *delivered* to the entity or to an agency of the entity.” (Note: 34)**
- **“PP&E shall also be recognized upon delivery or constructive delivery whether to the contractor for use in performing contracts services or the entity.” (Note 40)**

ACCOUNTABILITY (DoDI 5000.64)

Accountability of property shall be established by formal receipt and acceptance in an accountable property system of record.



Accountable Records

Paragraph 6.2.1

Accountable property records shall be established for all property purchased, or otherwise obtained:

- **having a unit acquisition cost of \$5,000 or more;**
- **leased assets (capital leases) of any value;**
- **assets that are sensitive or classified**

AND.....

Accountable Records (paragraph 6.3)

Paragraph

6.3 Property Furnished to a Third Party:

“...DoD Components shall establish records and maintain accountability for property (of any value) furnished to contractors as Government Furnished Property. This requirement also includes property that is loaned and/or otherwise provided to outside entities such as Federal agencies, State and local governments, and foreign governments.”

Accountable Records (paragraph 6.4)

Paragraph 6.4

Property in the Possession of a Third Party

“Third parties (to include contractors) have stewardship responsibility, consistent with the terms and conditions of the accountable contract or third party agreement, for the Government property in their care.”

New Definition: **Stewardship Responsibility**. “The requirement placed on an organization or individual who acts as the custodian of another individual’s property by controlling, supervising, and managing the property in their care.”

Accountable Records (paragraph 6.4) [cont.]

What it says: *"This includes DoD property loaned to outside entities and Government furnished property, for which DoD records are required under paragraph 6.2.1, and contractor acquired property, for which the Department of Defense has taken title but has not yet been delivered."*

What it means: for GFE, Gov't records are required; for CAP, records are not required. Why? Because CAP has not been delivered. Remember paragraph 6.1?: *"...established by formal receipt and account in an accountable property system of record*

New definition: **Contractor Acquired Property.** *"Any property acquired, fabricated, or otherwise provided by the contractor for performing a contract, and to which the*

Government has title. Although the Government may have title, CAP has not yet been delivered."

Accountable Records (paragraph 6.4) [cont.]

Once delivered, however, CAP becomes Government furnished Property. Gov't records are now required: See Paragraph 6.3:

“...DoD Components shall establish records and maintain accountability for property (of any value) furnished to contractors as Government Furnished Property”

New definition: **Government Furnished Property**. “Any property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract. Contractor Acquired Property that is subsequently delivered to the Government for use on the same or another contract is considered GFP.”

Accountable Records (paragraph 6.5)

“Accountable property records shall may also be established for management purposes, or when otherwise required by law, policy, regulation, or Agency direction.”

Accountable Records (paragraph 6.5) [cont.]

Examples:

Heritage Assets

Small Arms

Pilferable (Pilferability)

Scrap

Seized/confiscated property

Leased property (operating lease)

On Pilferable Property

- **“Pilferable” is not a category of property**
- **“Pilferability” can apply to any asset within any category of property**
- **“Pilferable” is in the eye of the beholder**
- **There is no requirement for “pilferable” property to be on an APP** Simply what is its condition? A broken hand tool is not a ‘pilferable’ hand tool; is it obsolete? A brand new Dell Laptop vs. a 5-year old Laptop; where is it located? - A secure locked room? Someone’s desk?

Example of “pilferable” property



San Diego Police and the California Highway Patrol chase a stolen military tank down Interstate 805. The tank was stolen from the National Guard Armory.

Bottom Line on pilferable (cont.)

- **Bottom Line: It depends!**
 - The type and scope of control should be commensurate with the level of risk
 - The person managing the property is in the best position to make that decision
- **The DoD Components do have an obligation to ensure their people have the business acumen and requisite training to make such decisions**

Paragraph 5.2.6. *“Ensure that all persons entrusted with Government property are made aware of their responsibilities—responsibilities that include proper care and stewardship—and are properly trained to their level of functional responsibility.”*

Policy

Paragraph 4.2

“Property management policies and systems shall be consistent with the ASTM International, Standard Practice for Establishing the Guiding Principles of Property Management (E 2279-03)”

Why ASTM International?

Policy (Cont.)

Standard Practice for Establishing the Guiding Principles of Property Management (E 2279-03)" is a Voluntary Consensus Standard.

"Common and repeated use of rules, conditions, guidelines or characteristics for products or related processes and production methods, and related management systems"

(OMB Circular A-119)

Voluntary Consensus Standards

- **The National Technology Transfer and Advancement Act of 1995 (Public Law 104-119) and OMB Circular A-119, mandate the use of Voluntary Consensus Standards in lieu of Government-unique standards**
- **Directs Federal agencies to use Voluntary Consensus Standards in lieu of government-unique standards (except where inconsistent with law or otherwise impractical)**

Physical Inventories

Paragraph 6.11

“Physical inventory plans shall provide a schedule for completion of all physical inventories and must include an awareness of an asset's acquisition or replacement cost, security classification, and/or its criticality. At a minimum, however, property shall be inventoried at least every 3 years; classified or sensitive property shall be inventoried at least annually.”

Physical Inventories (cont.)

Paragraph 6.11.1.3

“A minimum 98 percent physical inventory accuracy rate (100 percent for classified or sensitive property) shall be achieved and maintained.”

“I have repeatedly stated that moving to greater use of performance and commercial specification and standards is one of the most important actions that DoD must take to ensure we are able to meet our military, economic, and policy objectives in the future. Moreover, the Vice President’s National Performance Review recommends that agencies avoid government-unique requirements and rely on the commercial market place”

-Former Secretary

of Defense William Perry

MILITARY EQUIPMENT VALUATION & ACCOUNTABILITY

KNOWLEDGE. CONFIDENCE. TRUST.

Why 98%?

- **ASTM Standard Practice for Administrative Control of Property (E2221-02): organizations with inventory variances of 2% or less are considered “low risk”**

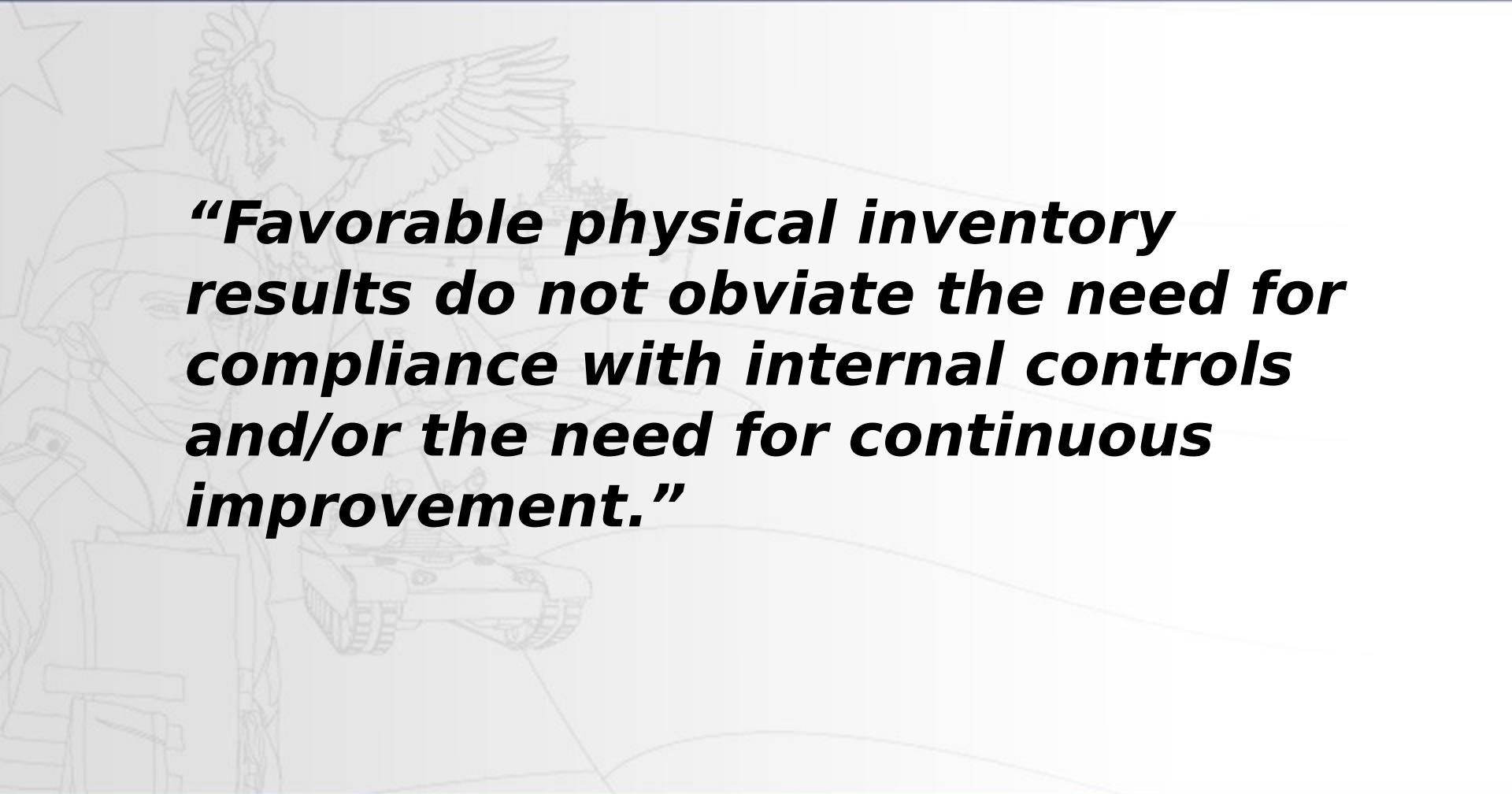
In other words “high performing” organizations achieve 98% physical Inventory accuracy -this is what we aspire to!

Physical Inventories (cont.)

Paragraph 6.11.1.3 (cont.)

“Physical inventory results shall be measured by annual loss and overage rates, in accordance with ASTM International Standard Practice for Physical Inventory of Durable, Moveable Property (E 2132-01). For the purpose of this Instruction, property lost is the number of items reported under procedures set forth in Volume 12, Chapter 7, of Accounting for Government Property Lost, Damaged, Destroyed, or Stolen.”

Physical Inventories (cont.)



“Favorable physical inventory results do not obviate the need for compliance with internal controls and/or the need for continuous improvement.”

Valuation

Paragraph 6.8

Valuation. ***“Value shall be at full cost. Property not requiring capitalization shall be valued at original acquisition cost. When original acquisition cost is unknown, estimates based on the latest cost of similar assets (at the time of acquisition) should be used, or the latest cost of similar assets discounted for inflation since the time of acquisition. Such methods and/or sources, when used, shall be applied consistently.”***

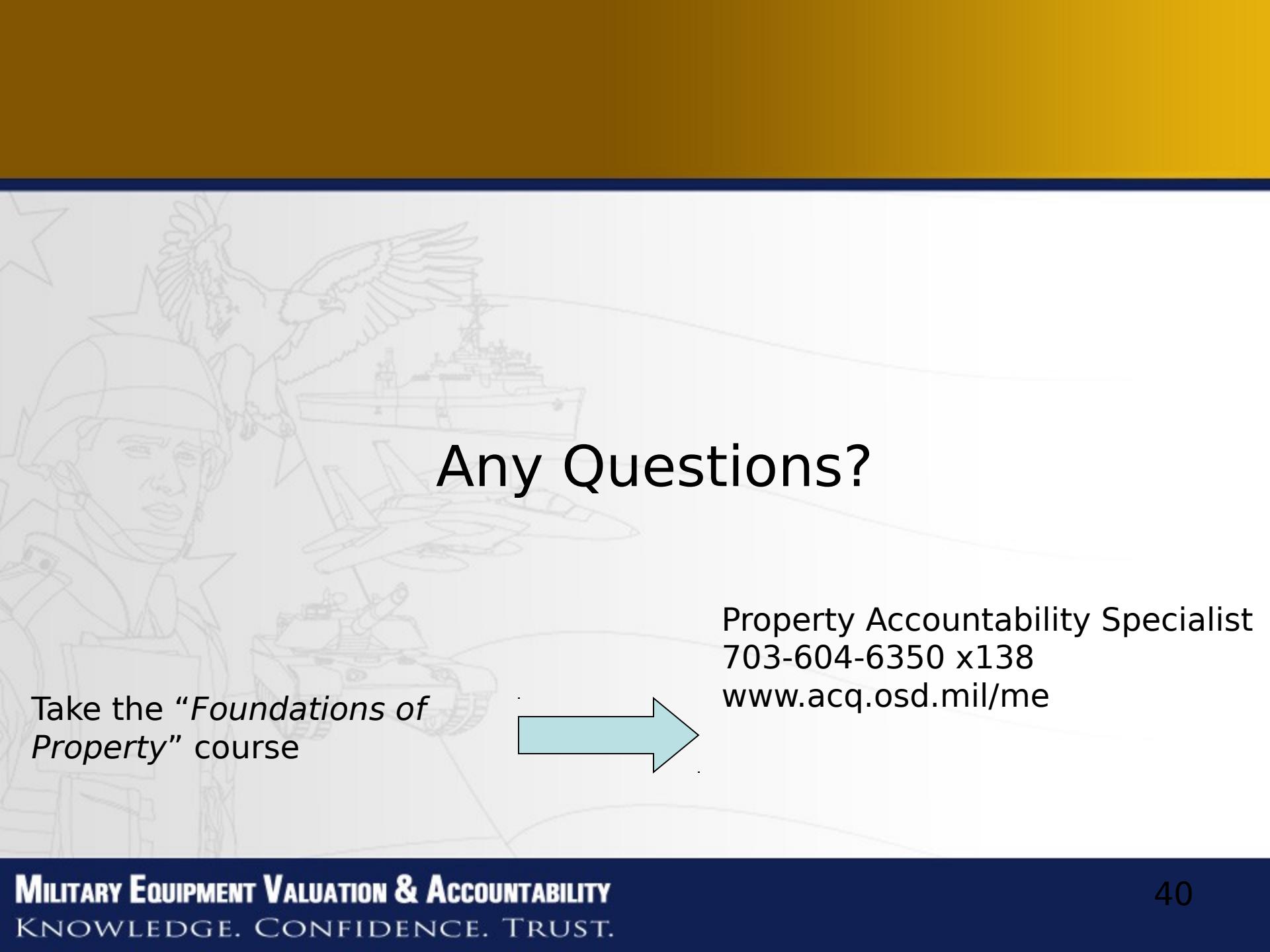
Important New Definition:

Full Cost. *“A baseline value that includes all (material) costs incurred to acquire and bring the property to a form and location suitable for its intended use and, as applicable, depreciated over its useful life.”*

Internal Controls

Paragraph 6.13

- Reference to DoD Instruction 5010.40,
*“Managers’ Internal Control Program
Procedures”*



Any Questions?

Take the “*Foundations of Property*” course



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